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General Business Conditions

THE effects of the steel strike which began October 1, and of the bituminous coal shutdown since September 19, have increasingly dominated the business news, and the indications as we go to press that steel settlements are in the making have been received with relief. Every great strike, and particularly those affecting basic materials and transportation, demonstrates afresh that the industries and all the people engaged in them are dependent upon each other. They are in a great mutual system, operating for their common advantage, in which each person supplies certain wants of others far more effectively than each could supply all his own wants. When the coal miners and the steel workers in effect withdraw from this system its existence is threatened, and if the strikes are prolonged paralysis sets in.

Always the chief influence for early settlement of disruptive strikes is that conditions rapidly become intolerable, for the strikers and for the country as well, if they are not settled. The country faced at the end of October the danger of widespread industrial curtailment, interruption of railway service in some areas, and a rise in unemployment to depressing figures. The public interest is basic. Moreover, it can hardly be supposed that the strikes have been highly popular with the workers. For most of them the issue was one of intangible future benefits against present losses. They stood to lose in wages in a few weeks more than they could gain in months or perhaps years, if they won. At this writing it is still not clear how rapidly agreement will be reached between the unions and various steel companies, and even less clear whether the coal strike will end speedily or be dragged on. However, the presumption is that the threatened general disruption of business will be averted.

During October general manufacturing activity has been maintained at a high rate by drawing on stocks of steel and coal, supplemented by continuing output in small segments of both industries. Production indexes for the month will show a sharp decline, accounted for mostly by the shutdowns in coal and steel themselves. Without doubt settlement of the strikes, when it is complete, will be followed by an equivalent recovery in these indexes. Steel inventories will have to be replenished and coal piles built up.

Trade has fallen off in the coal and steel areas and to some extent elsewhere, and should also recover as production is resumed and the flow of income to miners and steel workers starts again. However, the strikers have drawn on their savings, their union treasuries and State relief funds, and have borrowed against future wages. The purchasing power thus used is at the expense of reserves, whose depletion leaves the situation that much weaker.

How Should Old Age Be Provided For?

Amid the feelings of relief that widespread factory shut-downs seem to have been averted, it

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is now appropriate to ask, at what cost? The central issue in disputes over pensions is how old age shall be provided for. The questions raised are thorny, and not merely technical in nature. What is an adequate pension? What do pensions cost and who bears the cost?

In all the discussion provoked by the strikes, the matter least emphasized has been the fact that pension payments are an item of costs and a charge upon the productive system. More and more they are viewed as a necessary and desirable charge, and in these days of high taxes they are often a more attractive form of compensation than wage or salary increases. But the change of form does not disguise the fact that the pension payments are equivalent to a fourth round wage increase, and raise costs similarly. What is the effect of the cost increases in raising prices, and reducing real wages? What about the people who do not get the pensions, but have to pay the higher prices? If large and strong companies can absorb higher costs without raising prices, what about the smaller and weaker companies? Should pensions be assured, by payments coming nominally from the employer alone, in amounts which will weaken incentive of workers to get ahead and save on their own? These questions become more acute as pension systems spread and benefits are raised. For if incentive is weakened effort and productivity will be weakened also. How much can the productive system be burdened?

A notable address dealing with these matters was delivered by Mrs. Eugene Meyer at a meeting of the American Public Welfare Association in Atlantic City, September 29. Mrs. Meyer is in full accord with industrial management and labor as to the need for pension programs to supplement Federal old-age benefits, but she is more concerned about security for all, and she made many penetrating comments as to the dangers in certain current ideas and trends. Among other things she said:

> The demand for security among the young as well as the aged is becoming an obsession with our people. This is dangerous because exorbitant demands for security may defeat the very ends which our people have in view . . .
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> These taxes (on coal) as well as the increase in wages are largely passed on to the consumer with the result that coal is being priced out of the competitive market. Even if Lewis now succeeds in holding up the operators for a higher tax on coal — granted even that the welfare fund is more efficiently managed than it has been — he can never provide security for his union members with this non-contributory insurance system. The outcome will be that the demand for coal will drop still further, the miner will be unemployed and the welfare fund will be on the rocks again at a time when the miner's family is most in need of health, welfare and social security . . .
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> To pay private pensions out of current income without a reserve fund is to risk disaster, and it is not surprising that the United Mine Workers Welfare Fund is already bankrupt. Yet nobody deserves real security more than the miners. What they need most is local self-government in their isolated communities, which will make them more independent and teach them that their eventual security depends not upon John L. Lewis but upon a sound economy and a sound system of Federal insurance, supplemented by their employers and their own contributions. Only if they think as responsible citizens rather than as coal miners will they understand that their fate is closely linked to the fate of the nation as an entity . . .
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> What does this constantly augmenting drive of the unions for their own security mean in terms of the general security? At present most farsighted union leaders would prefer to have adequate Federal old age benefits. But if they build up more and more vested interests of their own on a non-contributory basis, they will certainly not prefer a Federal contributory insurance system in the future. That is the reason why the recommendation of the President's Board of Inquiry that the steel companies pay the full cost of their workers' pensions is a disastrous blow to the whole American concept of insurance. How can the unions be expected to support the extension of the Federal contributory system of social security, when their private pensions cost them nothing? If the labor unions continue to splinter the welfare program by establishing their own free pension systems, our Federal Security program will be impeded by the indifference of these powerful groups and undermined by the fact that a small percentage of the population gets two or three pensions while the rest get inadequate old age insurance or, in the case of agricultural and domestic workers, none at all . . .

In Great Britain last month, Herbert Morrison, Cabinet Minister and Lord President of the Council, declared in a speech, "We keep on behaving as though we had more wealth to distribute than is actually the case." There is a warning for us in the British experience. In extending welfare programs we need to ponder how the costs will be borne.

Prices Since the Currency Devaluations

The second major anxiety of business during October has related to the possible effects of the currency devaluations. Commodity markets and foreign trade reports have been studied intensively. Thus far, at any rate, the markets have offered reassurance rather than cause for concern. The general price indexes have been stable. A survey of basic commodities would show that among the principal imported staples, which in theory might be expected to be depressed by the devaluations, only tin and rubber are lower than before Great Britain acted, tin by 8 per cent, rubber by 10 per cent. But cocoa, an important product of the sterling area, is up more than 10 per cent, burlap and foreign wool are nominally unchanged in our markets, and hides are slightly

higher. Coffee has had a sensational rise. In part this seems to have been a backfire from devaluation; for expectations that Brazil might devalue her currency encouraged the development of a short interest, which was promptly trapped and routed when crop reports turned bullish and the expected devaluation of the cruzeiro did not occur.

The prospect of stiffer foreign competition continues to give concern to exporters, but it is more generally realized that there are temporarily strong supporting influences in the export outlook. One is that allocations of Marshall Plan funds will continue to provide dollars to the beneficiary countries, independently of their ability to sell goods here, and that for this reason, together with the prospect for record-breaking American tourist expenditures, the United States will probably enjoy its export surplus for some time. Another is that in many competitive items foreign producers are already sold far ahead and not in position to take on new orders for early delivery. In both respects American exporters in many lines may live on borrowed time, before the effects of devaluation come completely home.

Meanwhile it would be premature to judge the long-run situation. There is uncertainty as to whether foreign producers will continuously enjoy the competitive advantage devaluation has given them, or whether it will be absorbed by inflationary cost and price increases in their own countries. Again, the level of business in this country is an important influence, for the higher our domestic activity the larger our imports, which provide dollars to foreign buyers and support our exports. We may repeat our statement of last month, that when our foreign grants and aids are discontinued, and to the extent that they are not replaced by American investments abroad, our export surplus must disappear. Whether this balancing of trade comes about on a high or low level, however, depends on too many complex and uncertain factors for easy appraisal.

The Fall and Winter Prospect

Once steel and coal production is under full swing again, the prospect for a satisfactory Fall and Winter business should be considered excellent. The consumers' goods industries generally accumulated backlogs of orders during the active buying of the Summer and early Fall. The situation in many electric appliances and household articles turned strong as distributors' stocks were absorbed last Spring, and Mr. C. E. Wilson of the General Electric Co. said recently that the company cannot supply all demands for consumer items during the remainder of the year, even if it should get sufficient steel to maintain production. The textile and paper industries are in a strong position again, with bookings extended, production increased and prices firm.

To these good reports may be added the continuation of construction contract awards virtually at peak levels, with almost no sign of the usual seasonal decline since Summer. With the steel and coal industries under pressure to produce at capacity for a time at least, merchants are justified in expecting a good Christmas trade. The general view is that dollar sales will hardly come up to last year, but particularly in apparel and household lines lower prices affect the comparison.

Third Quarter Earnings

Reports of industrial corporations for the third quarter show that earnings in a majority of cases made some recovery over the second quarter, reflecting both the vigorous pickup in business and the firming of commodity prices, but that they continued below a year ago. Statements issued to date by 460 companies, mainly the large manufacturing organizations but including also numerous concerns in the mining, trade, and service industries, show a combined net income in the third quarter of approximately $1,048 million. This is 10 per cent above the second quarter, and practically equal to the first quarter of this year. As compared with the third quarter of 1948, the decline is 8 per cent. Slightly over half of the companies reported an improvement over the second quarter of this year, but as compared with the third quarter of 1948 about two out of three were lower.

For the first nine months, the combined net income totaled $3,054 million, a decrease of 7 per cent from the corresponding period last year. About two out of every three companies, however, reported decreases. This decline in net income contrasts with an increase of 6 per cent in the overall totals of sales, for which figures are available for about half of the companies.

As shown in the accompanying summary, earnings have been relatively well maintained in food products, chemicals, drugs, cement, glass, iron and steel, machinery, automobiles, auto parts, and electrical equipment, including radio and television, and office equipment, although the changes among the individual companies within the groups were extremely uneven, ranging from all-time highs to deficits. There have been substantial drops in the textile industries, as well as in pulp and paper, petroleum products, heating

NET INCOME OF LEADING CORPORATIONS FOR THE THIRD QUARTER AND FIRST NINE MONTHS

(In Thousands of Dollars)

No. of Cos.	Industry Groups	Reported Net Income Third Quarter 1948	1949	Per Cent Change	Reported Net Income Nine Months 1948	1949	Per Cent Change
28	Food products	$ 37,225	$ 42,552	+14.3	$115,397	$121,211	+ 5.0
28	Textiles and apparel	44,140	19,079	—56.8	146,679	53,341	—63.6
21	Pulp and paper products	21,278	11,002	—48.3	68,316	38,344	—43.9
35	Chemicals, paints, etc.	96,287	100,660	+ 4.5	275,567	292,098	+ 6.0
12	Drugs, soap, cosmetics	25,646	33,864	+32.0	68,207	60,588	—11.2
19	Petroleum products	324,084	221,376	—31.7	1,009,788	724,409	—28.3
20	Cement, glass, and stone	33,889	37,597	+10.9	87,191	93,560	+ 7.3
29	Iron and steel	131,142	116,479	—11.2	328,606	414,770	+26.2
13	Building, heating, plumbing equip.	13,290	9,468	—28.8	32,848	20,092	—38.8
17	Electrical equipment and radio	51,429	50,267	— 2.3	159,474	145,496	— 8.8
34	Machinery	21,302	14,737	—30.8	53,883	49,812	— 7.6
9	Office equipment	14,985	14,090	— 6.0	44,708	42,399	— 5.2
8	Autos and trucks	150,755	247,853	+64.4	404,502	615,126	+52.1
22	Automobile parts	19,027	21,860	+14.9	51,614	58,526	+13.4
7	Railway equipment	4,736	2,686	—43.3	14,924	13,813	— 7.4
47	Other metal products	43,993	23,546	—46.5	121,493	74,489	—38.7
38	Miscellaneous manufacturing	41,358	33,716	—18.5	111,106	95,969	—13.6
387	Total manufacturing	1,074,571	1,000,832	— 6.9	3,094,308	2,914,043	— 5.8
35	Mining and quarrying	41,388*	27,109*	—34.5	113,805*	89,694*	—21.2
22	Trade (retail and wholesale)	15,847	10,938	—31.0	40,831	23,929	—41.4
16	Service industries	8,793	8,900	+ 1.2	24,663	25,904	+ 5.0
460	Total	$1,140,599	$1,047,779	— 8.1	$3,273,607	$3,053,570	— 6.7

*Before depletion charges in some cases.

and plumbing fixtures, and nonferrous metals. In these lines declines in earnings were much sharper than declines in sales, indicating the squeezing of profit margins between shrinking volumes and high costs.

Lower net income is shown also by a majority of companies in the mining industries, including coal, iron, nonferrous metals, oil and gas. Some were affected adversely by a drop in selling prices, and others by interruptions due to strikes. Changes in retail trade are discussed hereafter.

Dividend Trends Mixed

The downward trend of corporate earnings this year has not been accompanied thus far by a corresponding reduction in dividend payments. On the contrary, figures compiled by the Department of Commerce covering all publicly reported dividends show that for all lines of business during the first nine months the dollar total was actually 6 per cent higher than in the same period of 1948. More than half of the increase, however, was accounted for by large increases in three industries: automobiles, steel, and petroleum. Only minor changes occurred elsewhere.

Many companies, despite lower earnings this year, have been able to maintain or even increase dividends due to their comfortable cash position and the low proportion of earnings being disbursed. Cash requirements to finance new plant and equipment have declined as postwar expansion and modernization programs have been rounded out. At the same time, the supply of cash has been augmented by liquidation of inventory and receivables and by larger depreciation charges (an expense item involving no cash outlay) based on expanded property accounts.

Nevertheless, increasingly competitive conditions are putting heavy pressure on concerns having insecure markets, above-average costs, or excessive borrowings. As a result, a marked shift is taking place in the relative numbers of favorable and unfavorable dividend changes which is not revealed in the dollar totals. According to the New York Sun's tabulations of publicly reported dividend actions for the first nine months of 1948 and 1949, the number of increases declined from 363 to 238, the extras declined from 870 to 696, and the resumptions declined from 69 to 62. During the same period, the number of reductions more than trebled, from 56 to 195, while the number of passed or omitted dividends rose from 103 to 187.

Changes in Working Capital

The reduction in the first half year in business inventories, which had been rising rapidly during the three years following the war, is reflected in the S.E.C. survey issued last month on the working capital of all U. S. corporations, excluding banks and insurance companies. As shown by the accompanying table, there was a reduction of $2.8 billion in inventories and a drop of $1.6 billion in receivables. While some of the funds so liquidated were added to cash or to holdings of government securities, the major portion was used to pay down bank loans and current accounts payable by $4.4 billion. Federal tax liability was $1 billion lower because of the decline in taxable income.

Working Capital of All U. S. Corporations, Excluding Banks and Insurance Companies

(In Billions of Dollars)

Current Assets	Dec. 31, 1939	Dec. 31, 1945	Dec. 31, 1948	June 30, 1949
Cash	$ 10.8	$ 21.7	$ 24.0	$ 24.3
U. S. Govt. securities	2.2	21.1	13.9	14.8
Receivables, net	22.1	25.9	38.7	37.1
Inventories	18.0	26.8	48.5	45.7
Other current assets	1.4	2.4	1.6	1.4
Total current assets	54.5	97.4	126.7	123.3
Current Liabilities				
Notes & accounts payable	21.9	25.7	37.1	32.7
Federal income taxes	1.2	10.4	11.6	10.6
Other current liabilities	6.9	9.7	13.1	13.3
Total current liabilities	30.0	45.8	61.9	56.6
Net Working Capital	24.5	51.6	64.8	66.7
Ratios:				
Current assets to current liabilities—%	182	213	205	218
Cash & govt. securities to current liabilities—%	43	93	61	69

Sources: Treasury Department annual "Statistics of Income" for 1939-45; Securities & Exchange Commission estimates for 1948-49.

Net working capital was increased $1.9 billion to a new high of over $66 billion, compared with $52 billion at the end of the war and $24 billion in 1939. The high liquidity of corporate business, taken as a whole, is shown by the rise in the overall ratio of total current assets to current liabilities, and even more strongly by the rise in cash and government securities to 69 per cent of total current liabilities, compared with 61 per cent at the beginning of this year and only 43 per cent before the war.

In addition to building up working capital, American corporations, in the first half of this year, made additional investments in plant and equipment of over $8 billion, which was slightly more than in the first half of 1948 although slightly less than in the record second half.

Of the total of some $10 billion in funds invested in current and fixed assets, about two-thirds, or about the same proportion as in the years since the war, was obtained from internal sources, of which an estimated $4.5 billion came from reinvested earnings and $2.9 billion from depreciation charges. Of the remaining one-third obtained from external sources, long-term borrowings provided $2.3 billion, in contrast with only $700 million from new stock issues.

Shifts in Retail Trade and Earnings

The decline shown in the preceding tabulation of the nine months' earnings of a limited group of retail and wholesale companies reflects both the shift this year in the character of consumer buying, and a squeeze of profit margins between increased costs and decreased dollar sales. For retail trade as a whole, after ten successive years of expansion, the downtrend this year has been very moderate, and is accounted for mainly by lower price levels. The substantial increases in purchases of automobiles and farm implements, however, have been accompanied by decreased spending for many of the personal and household articles which are such a large part of the stock in trade of the department and chain stores and the mail order houses.

In cases where dollar sales have decreased, it has been difficult to bring down the total of operating costs correspondingly, due to the high level and inflexible nature of many costs. High labor costs are a predominant operating expense, and local taxes are rising in most communities. The continued return toward keener competition tends to force down selling prices, but to keep up distribution and service expenses. Moreover, although careful buying and inventory policies have characterized retail operations for many months, some heavy mark-downs have had to be taken.

The relative trends of sales and earnings in four major branches of retail trade are shown in the following summary based on reports of 58 of the 100 largest organizations for the half year ended June 30 or July 31, many of which have only recently become available.

Changes in Sales and Net Income of 58 Large Retail Corporations for the First Half Year, 1948-49

	Sales	Net Income
12 Chains—Food	—0.3%	+25%
15 Chains—Variety, etc.	—3	—32
27 Department and Specialty	—3	—35
4 Mail order	—9	—44
58 Total	—4	—31

Charges of Monopoly in Retailing

The recent action by the Department of Justice, seeking to break up the Great Atlantic & Pacific Tea Company on charges of monopoly and restraint of trade, revives the old questions of the portion of total trade handled by the large companies, and the profit margin on which they operate. Information on both points is readily available in the published financial statements of the leading organizations, which are informative also as to the scope of their employment, the ownership of their stock, and the disposition of their earnings.

There are now several hundred retail corporations, mostly representing the larger organizations, whose detailed reports to shareholders are published in the newspapers and reprinted in the investment manuals. In addition, there are approximately 1,700,000 other retail corporations, partnerships, and individual proprietorships, including many that have grown large as a result of consumer patronage, which are family owned or closely held and do not publish their figures.

Among all of these merchants the competition is intense and unceasing. If any merchant enjoys a "monopoly" it is certainly not because the field is not open for anyone else to enter; in fact, the unusual ease with which new ventures may be started even by people with inadequate ability, experience, or capital, is itself largely responsible for the narrow profit margins and keen competition that is traditional in distributive enterprise.

The 100 Largest Retailers

A group of the country's 100 largest retail trade corporations, based upon volume of sales reported for the 1948 calendar or nearest fiscal year, shows a combined total of sales exceeding $19 billion. Despite the fact that their sales more than trebled during the past ten years, they still represent about the same proportion, around 15 per cent, of the national totals, which according to the Department of Commerce expanded from $38 billion in 1938 to $130 billion in 1948. An important factor in the increase of dollar sales was, of course, the general inflation in incomes and prices. The rise in average retail prices amounted to 91 per cent over the period.

100 Largest U. S. Retail Trade Corporations, Based Upon Reported Sales for 1948 Calendar or Nearest Fiscal Year

(In Millions of Dollars)

Chains—Food		**Department & Specialty**	
Albers Super Markets	$ 46	Allied Stores Corp.	$419
American Stores Co.	417	Associated Dry Goods Cp.	151
H. C. Bohack Co.	100	Barker Bros. Corp.	33
Colonial Stores	169	Best & Company	39
Dixie-Home Stores	42	Bond Stores	84
First National Stores	354	Broadway Dept. Store	54
Fisher Bros. Co.	69	Lane Bryant, Inc.	*36
Food Fair Stores	142	Bullock's, Inc.	117
Grand Union Co.	116	Burdine's, Inc.	27
Great A. & P. Tea Co.	2,837	Carson Pirie Scott & Co.	69
Jewel Tea Co.	154	City Stores Co.	168
Kroger Company	826	Consolidated Retail Stores	36
Lucky Stores	31	Crowley, Milner & Co.	26
National Tea Co.	270	Davidson Bros.	32
Red Owl Stores	69	Emporium Capwell Corp.	63
Safeway Stores	1,277	The Fair	37
Stop and Shop	46	Federated Dept. Stores	347
Winn & Lovett Groc. Co.	81	Marshall Field & Co.	225
		Gimbel Brothers	307
Chains—Variety, etc.		Goldblatt Brothers	95
A. S. Beck Shoe Corp.	42	Grayson-Robinson Stores	74
Davega Stores Corp.	25	Hale Bros. Stores	29
Edison Bros. Stores	75	Halle Bros. Co.	40
Gamble-Skogmo, Inc.	152	Hearn Dept. Stores	34
W. T. Grant Co.	234	Hecht Company	83
H. L. Green Co.	102	Higbee Company	42
Katz Drug Co.	27	Joseph Horne Co.	54
G. R. Kinney Co.	35	Howard Stores Corp.	31
S. S. Kresge Co.	289	Interstate Dept. Stores	67
S. H. Kress & Co.	165	Kobacher Stores	29
McCrory Stores Corp.	98	Lerner Stores Corp.	127
McLellan Stores Corp.	56	R. H. Macy & Co.	315
Melville Shoe Corp.	84	Mandel Brothers	36
G. C. Murphy Co.	138	Mangel Stores Corp.	27
Neisner Brothers	58	May Dept. Stores Co.	407
J. J. Newberry Co.	135	Meier & Frank Co.	44
Peoples Drug Stores	47	Mercantile Stores Co.	119
Reliable Stores Corp.	25	Miller-Wohl Co.	28
Rexall Drug, Inc.	174	National Dept. Stores Co.	90
Shoe Corp. of Amer.	38	Ohrbach's, Inc.	39
Thrifty Drug Stores Co.	44	J. C. Penney Co.	885
Unit. Cigar-Whelan Strs.	77	Rich's, Inc.	49
Walgreen Company	163	Richman Bros. Co.	41
Western Auto Supply Co.	126	Rike-Kumler Co.	29
F. W. Woolworth Co.	624	Ed. Schuster & Co.	41
		Scruggs-Vandv't-Barney	57
Mail Order		Stix, Baer & Fuller Co.	48
Alden's, Inc.	**88	Thalhimer Bros.	25
Montgomery Ward & Co.	1,212	Western Dept. Stores	30
National Bellas Hess	27	Wieboldt Stores	60
Sears, Roebuck & Co.	2,296	Woodward & Lothrop	39
Spiegel, Inc.	135	Younker Brothers	37

The above classifications are not clear-cut, and numerous companies overlap. In certain cases, the sales totals given include some wholesale as well as retail business. The list excludes several of the larger stores which do not publish sales figures, such as B. Altman & Co., Block & Kuhl Co., J. L. Hudson Co., Stern Bros., Strawbridge & Clothier, and John Wanamaker. *8 Months. **13 months.

On the $19 billion of sales last year by the 100 largest organizations, the average net profit was 3½ cents per sales dollar. The average for 18 food chains was 1.3 cents, for 25 variety and other chains 5.1 cents, for 52 department and specialty stores 4.1 cents, and for 5 mail order houses 5.6 cents.

Of this overall average profit of 3½ cents, 1½ cents was distributed in preferred and common dividends, while 2 cents was reinvested for improvements and additions to store properties and equipment, and for building up working capital to handle the increased dollar volume of business.

The accompanying list of the 100 largest retailers is based upon publicly reported sales, and includes several which not only operate stores but also process food or manufacture clothing, shoes, and other goods.

These 100 organizations operate a total of 29,278 stores of widely varying size. They range from the small drug or shoe store having sales of a few thousand dollars monthly, to supermarkets grossing over $1 million annually, and to a mammoth department store, carrying over 400,000 separate items of almost everything under the sun, and having sales in the Christmas season exceeding $1,000,000 daily. The group furnishes employment to a total of approximately 1,145,000 men and women, and is owned by 769,000 registered shareholders, many of whom are also employes.

Composite Income Account of the 100 Largest Retail Trade Organizations Reporting for the Year 1948

	Total (Millions)	Cents per Sales Dollar
Net sales	$19,258	100.0
Net earnings before taxes	1,114	5.8
Federal income taxes	431	2.3
Net income	683	3.5
Dividends paid	298	1.5
Income reinvested	385	2.0

As shown by the composite income account, one of the major items of expense in retailing today, aside from the cost of goods purchased, and from wages and salaries, is taxes. Federal income tax liability of this group for 1948 totaled $431 million, which represented an average of 2.3 cents out of every sales dollar. Total direct taxes – federal, state, local, and foreign, but excluding sales taxes collected from customers – according

to complete tax details reported by companies having over four-fifths of the total net income, may be estimated for the entire group at approximately $625 million. This represented an average of about 3.2 cents per sales dollar, or $21,300 per store, or $546 per employe. It is more than twice as large as the dividends, totaling $298 million, paid to shareholders. The latter's investment at the year-end aggregated $4.1 billion, or $3,600 per employe, computed on net assets at their stated book values, which in most cases are far below present-day replacement costs.

Although detailed expense figures showing wage and salary payments are not reported by most retailers, twenty-two of the larger organizations that do give such data showed total payrolls of $869 million, which was more than nine times the $91 million dividends paid by the same companies.

While some of these large retail organizations are still closely held, or controlled by the families of the founders, others have an unusually wide distribution of ownership. Sears Roebuck, for example, has shareholders in all of the states and U. S. territories, as well as in 35 foreign countries. Of its 93,534 registered shareholders, about 43 per cent are women, 37 per cent men, and 10 per cent joint tenancy accounts, while the remaining 10 per cent are corporate and trust holders. More than one-fourth of the stock is owned by men and women who work for the company. The shareholders other than individuals include 7,198 trusts and trustees, 287 charitable institutions, 246 schools, colleges and universities, 160 churches, 149 insurance companies, and 103 hospitals.

Improved Standards in Merchandising

It is repeatedly said that one of our greatest economic problems is to reduce the cost of distribution. Complaints are repeatedly expressed against the profits of the "middle-man" and against the "inordinate spread" between the prices received by producers and those paid by consumers.

The publicly available records of the large retail organizations reveal how they are meeting this problem. Newer methods of merchandising, coupled with mass volume handled at narrow margins of profit, have brought great strides in offering the public better goods and better services at lower prices. At the same time the leadership of the larger organizations, with their stronger financial resources, in improving wages and working conditions and extending welfare benefits to their employes, has tended to raise the standards throughout the field.

As the figures given above plainly show, the major element in the cost of mass distribution is not the profit margin of the retailer, but the combination of operating costs made up of wages, taxes, advertising, transportation, rent, fuel, insurance, and other expenses. The volume of business handled by the nationally-known stores and chains is neither a large nor increasing share of the country's total retail trade, and there remains ample opportunity for the enterprising and efficient independent merchant.

Aftermath of Currency Devaluations

The sequence of currency changes, precipitated by the 30.5 per cent devaluation of the British pound on September 18, came to an end during the first week of October with readjustments in the official valuations of the Argentine and Uruguayan pesos. In France, as a sequel to devaluation, the cabinet fell and in Britain the Parliamentary debate on the government's decision and its subsequent program has overshadowed all other news. In many capitals the question how to hold the line against inevitable inflationary pressures growing out of the currency changes is under urgent consideration. More adjustments may be still ahead but they will be relatively minor and in a category with the adjustments that have been going on, here and there, since the war.

Never before, according to the International Monetary Fund, had so extensive a realignment of official exchange rates taken place within so brief a period. Never before, it might also be said, had valuations which governments placed upon their currencies been farther out of touch with what the markets of the world considered the currencies to be worth. And never before had governments sought harder to suppress free markets in their currencies or to deny the verdict of those markets that their currencies were indeed depreciated. One very practical lesson of the September devaluations is the power of the free market over the controlled market. A controlled price that is far out of touch with economic realities sooner or later must break of its own weight.

Now that these devaluations are done, the question is how much closer are we to a general restoration of confidence in money? Will the values which governments now place upon their currencies stand up? Will they be fortified by the correction of policies and conditions that erode their worth? Are the nations going to work, with good faith and energy, to give back to their citizens eventually the privilege of free

inter-convertibility of currencies so long compromised or denied?

The Goal of Convertibility

The success of the devaluations, in any lasting and fundamental sense, depends upon whether or not they open the way to a gradual restoration of free convertibility. Freedom, on the part of the individual, the business man and banker, to convert one currency into another is an essential underpinning of the freedom of people to travel where they like, to buy and sell and invest where they please, and to enjoy and share the best that this earth has to offer. The world as we have it — even the western world this side of the "iron curtain" — has been fettered by restrictions on the use of money which go beyond anything in past experience. Exchange controls, making convertibility at the official rate a matter of administrative option, are the high fashion, and they are backed up by a bewildering array of import quotas, licensing arrangements and restrictions on foreign travel, all designed to deprive citizens of things they would like to enjoy and to limit the usefulness of the money they earn. The sum total of restrictions, not unnaturally, has driven people to traffic in unofficial "parallel" markets, to distrust their governments, and to seek a haven of safety in gold.

The situation that we have seen bears a sorry contrast to the fine visions of thriving commerce among the nations held out by agreements reached between the allies during the war. Equal access to foreign markets was to be afforded to all. Trade discriminations and foreign trade restrictions were to be eliminated. A multilateral system of financial clearances was to be re-created under the aegis of the International Monetary Fund. The statutes of the Fund, while endorsing exchange controls over capital transfers, established the basic rule that "no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions." To show how far this rule is from practical implementation, the Fund's Annual Report for 1949 states that only El Salvador, Guatemala, Mexico, Panama and the United States have "accepted in full the general obligation to avoid restrictions on current payments and discriminatory currency practices." All the other members of the Fund have taken recourse to a provision that the basic rule might be held in abeyance for a five-year "transitional period."

The September devaluations came at a time when this five-year period, dating from March 1, 1947 when the Fund began operations, was half expired. Up to now, among members of the Fund, Belgium and Italy have perhaps made the farthest progress towards free convertibility. Some others have backslid and, like Britain, have tightened controls or, like South Africa, have introduced restrictions on current payments where none effectively existed. Outside the Fund's membership, Switzerland has kept its possession, unique in Europe, of a stable and substantially gold-backed currency; Sweden and Portugal have slipped from their wartime classification as "hard currency" countries, and Argentina has lost even more ground. If there has been any general trend up to this point toward relaxation of trade and exchange restrictions, it has been difficult to perceive.

One of the immediate results of devaluation has been an upturn — described by the Chancellor of the Exchequer as "temporary" — in British gold and dollar reserves. Others too have gained some reserves, especially as commitments deferred in anticipation of devaluation have been carried through. France took the occasion of devaluation to simplify its exchange regulations and to put one controlled "free market" rate in place of an "official" rate, a "free" rate, and an "average" rate, the last of which was the effective commercial rate. In the "parallel" market francs sell at a discount of around 10 per cent below the controlled "free market" rate.

As the following table shows, free market rates for sterling still show discounts below the official rates although the discounts are a great deal less than they were. The cheapest sterling is still the special type that is usable only for buying British Government securities. The only substantial decline since devaluation has come in the paper currency. Sterling usable for buying British industrial stocks has actually improved in price.

Pound Sterling Quotations Before and After Devaluation

(Expressed in U. S. Dollars)

	Sept. 16, 1949	Oct. 10, 1949	Oct. 31, 1949
Official Rate			
"American Account" sterling	$4.03	$2.80	$2.80
Selected Unofficial "Free" Rates			
"Dutch Account" sterling	2.70	2.60	2.65
"French Account" sterling	2.70	2.65	2.63
"Industrial shares" sterling	1.80	2.00	2.08
"Govt. securities" sterling	1.75	1.80	1.70
Bank of England pound notes	2.92	2.71	2.55

Source: Adapted from table appearing in the London Economist, October 15, 1949, and brought up to date on the basis of reports from various markets.

Obstacles to Convertibility

One powerful influence making for the retention of controls is the reluctance of ministers of government in socialized states to give up pow-

ers once held and to insist that their judgment of what is good for the nation is superior to the choice of the citizen exercised in free markets. What has happened in one country after another is that governments have tried to go too fast with schemes of development, rehousing, and governmentally disseminated welfare. After taxing to the limit, they have parcelled out their gold and dollar reserves for priority projects and financed expenditures at home by increased paper note issues. Then, in the emergency of inflation or "dollar shortage", they have attempted to dictate to people how much or how little they might earn and how much or how little of their wages they might spend and for what.

The devaluations strengthen the immediate trade positions of the devaluing countries and are already enlarging their dollar earnings. They will entice tourists to come and to spend money and induce some capital to come back home. They have opened the way to some loans and credits from "hard money" areas. But these gains will wear away rapidly unless stern and painful measures are taken to eradicate continuing inflationary pressures from the side of government finance. Experience teaches that soft and depreciated money is the unavoidable consequence of soft and easy spending-lending policies on the part of government.

The cut in government outlays which the British Government has proposed is a tacit recognition of this principle. In South Africa, following devaluation, the discount rate of the Reserve Bank has been raised from 3 to 3½ per cent, a move designed to tighten up the supply of credit and discourage borrowing. Further measures of restraint, in these and other devaluing countries, doubtless will have to be taken. Once inflationary spending has been brought under control, and monetary reserves are on the upgrade, relaxations of exchange and import restrictions can open the way to free convertibility and, in partnership with tax reforms, can unleash, in the common good, the vast powers of private incentive and enterprise. If statesmen will carry through, there is bright hope in the currency revaluations.

Role of the U. S.

In the fulfillment of this hope the United States has an important part to play. It is not just a question of what other countries do, but of what we do as well. We need, of course, to lend a helping hand in reconstructing the economies of countries that suffered greatly from the war; and we are doing that through Marshall aid and the activities of the Export-Import Bank and of the International Bank and Fund. But beyond that we have responsibilities of two other kinds.

First, we need a liberal trade policy, by which is meant a willingness to import as well as export. There is no sense in our spending billions to help other countries increase their production in order to acquire more dollars if, as soon as they begin to earn these dollars by selling us more goods that our people really want, we set up barriers to keep such goods from coming to our shores.

Second, we need to keep a sound and stable dollar. Not only is this directly essential to welfare and security at home, but it is of far-reaching importance on broad grounds of providing a firm anchor for restabilization of foreign currencies. Since we refer to this matter again in the next article, we will only say at this point that nothing could nullify the September devaluations more effectively than tampering with the dollar in a way to restore the old disparities between foreign and American price levels, which blocked trade and which the devaluations were supposed to correct.

Gold

It is agreed quite universally that progress toward free convertibility among world currencies will have to be, in any event, gradual. If the various individual currencies can be made freely convertible into U. S. dollars, the objective of general convertibility will be achieved. In the larger background there is the question of resuming full convertibility of currencies, including the U. S. dollar, into gold. Nothing has strengthened the esteem of gold in the public eye more than the abuses of paper money which have been seen over the past ten or twenty years, selectively penalizing most of the industrious and thrifty and selectively benefiting the distrustful and the speculator. The seductive ease of covering government expenditures at the print-shop is something that statesmen always will have difficulty in resisting.

Over most of the world today, gold and gold-backed dollars are the common denominators of value. Foreign currencies, besides having official valuations in terms of gold and U. S. dollars, are appraised every day in free markets. Not only private bankers, traders, and travelers, but also governments and central banks have come to use free market quotations as a guide to the state of a nation and to the confidence of people in the soundness of its financial affairs.

As in France, Greece and India today, central banks have been buyers and sellers of gold bars and coin in the open market to steady the values of their currencies in terms of gold. In such cases gold has come back to serve, for the average citizen, its traditional function of creating and maintaining a basis of confidence in paper.

Dollar Devaluation?

In the stern measures which foreign governments are having to take to straighten out their international accounts, there is a lesson for our own national administration and Congress. The bountiful appropriations, by the first session of the 81st Congress, of moneys neither in hand nor among the prospective revenues, lent unwitting credence to rumors that the United States before long would join in the currency revaluations. Another associated rumor went that, after a dollar devaluation, gold might be returned to circulation. Secretary of the Treasury Snyder repeated his denials that the dollar would be revalued and indicated that he had not given any consideration at all to the idea of going back to a gold coin standard.

Denials of currency changes by statesmen carry a hollow ring these days, with the precipitate reversal of British policy in the immediate background. In the instance of the British pound, however, there was not only a sensible case to be made for a change, but the drain of gold and dollar reserves left hardly any other option. Its overvaluation was widely advertised on free markets all over the world.

But in the instance of the United States dollar, it is difficult, as Mr. Snyder phrased it, to perceive any consideration which would justify a devaluation and a raise in the American price of gold. In the previous structure of official exchange rates the dollar was relatively undervalued, foreign currencies variously overvalued. This was clearly indicated by necessities for exchange controls abroad, widespread "dollar shortages", and premium prices paid for dollars in free markets. Exchange controls abroad are still retained to protect currency reserves. Six billion dollars a year of emergency foreign aid is still necessary to appease foreign needs for dollars. Premiums, albeit smaller, are still commanded by dollars in free markets.

The dollar was the base point, the pivot in the September adjustments. To devalue the dollar would be to undo the relative adjustment in exchange rates that the devaluations were intended to accomplish. No one seems to have stopped to consider what the United States could possibly stand to gain by putting the pound back to the demonstrably unworkable ratio of $4.03, after having applauded the wisdom of the British move and having so many billions at stake in the arduous effort of restoring Europe to a self-supporting basis.

We still have a time to wait – years possibly – before anyone can know if any of the September devaluations were excessive. If any should prove to be, the individual countries have the right to move their currencies back up a bit. Should some gold shift out of the U. S. gold stock into foreign reserves – as small amounts have since the devaluation – we can take satisfaction in the related rebuilding of confidence in money overseas and the means gained toward a restoration of convertibility. Devaluation of the dollar at this juncture, making it harder for foreigners through work and trade to earn dollars, and breaking faith with all holders of dollars, could set the clock back by years in the painfully slow and halting task of restoring confidence in money.

Some of the rumors would have it that the dollar will be devalued so the gold stock at Fort Knox can be written up in value and the so-called "profit" used to reduce the public debt. This boils down to printing money to pay the government's bills and debts. As wartime and postwar European experience abundantly attest, nothing is more purely and baldly inflationary. Others suggest that Europe would follow up dollar devaluation by devaluing again so as to keep the present relationship of their currencies to the dollar. Certainly they would be under great practical necessity to do so. If this sequence is assumed, the effect of dollar devaluation would be to spur inflation on a world-wide front. It is impossible to believe that there is enough folly in high places to embark on such a course when people everywhere are asking their governments for money they can trust.

Some are led to draw a parallel between the September, 1949 devaluation of the pound and the drop in the pound in September of 1931, eighteen years before. The eventual sequel then, over a period of years, was devaluation of all currencies. But this is not 1931, when nations were struggling to combat deflation. The 1949 realignment rather is the parallel to the early years after the first World War when nations were struggling to readjust their currency values to a workable basis. The dollar was then a fixed point of reference. It is serving the same function today.

Only Congress Can Revalue

American law delegates no right to anyone to tamper with the dollar. In the Constitution, the

right to "coin Money" and "regulate the Value thereof" is expressly reserved to the Congress. Under legislation of May 12, 1933, the Congress delegated to the President the authority to revalue the dollar, in terms of gold, within limits of 50 to 60 per cent of its previous parity and this authority was used in January, 1934 to cut the dollar to a gold content of 15 5/21 grains of gold nine-tenths fine. This works out to one-thirty-fifth part of a fine ounce, and the statutory price of gold to $35 per fine ounce. Presidential power to make any further adjustment lapsed on June 30, 1943, and the right to determine any change in the gold value of the dollar thus reverted to the Congress.

Some people have assumed that our adherence to the International Monetary Fund changed this. The Fund does have an advisory power to approve or disapprove currency changes but it is specifically barred from initiating currency changes. Article IV, Section 5b, of the Fund's statutes reads: "A change in the par value of a member's currency may be made *only on the proposal of the member* and only after consultation with the Fund." (*Italics ours.*)

More important, in the Bretton Woods Agreements Act of July 31, 1945, whereby the United States joined the Fund, it was specifically stated that:

> Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States . . . propose or agree to any change in the par value of the United States dollar . . .

This language serves in effect as a reminder of the basic Constitutional provision: only an act of Congress can change the basic monetary unit, or its reciprocal, the statutory price of gold.

Ambiguities in the Law

The Gold Reserve Act of 1934 specifically forbids gold coinage and requires that the gold reserve be held in bar form. None of the present gold dollars has ever been coined. No one has ever seen one or touched one. Hence the gold dollar has somewhat the intangible quality of a figure of speech.

A more serious source of misunderstanding about the nature of our monetary standard lies in sections 8 and 9 of the Gold Reserve Act which give the Secretary of the Treasury, with the approval of the President, authority to purchase and sell gold "at such rates and upon such terms and conditions as he may deem most advantageous to the public interest." The authority of the Secretary, under these provisions, as the Treasury Department itself has pointed out, is limited by a number of factors. For one thing, under the statutes of the International Monetary Fund, the United States is obligated not to deal in gold except within a prescribed margin above and below parity. That margin at the present time is one-quarter of one per cent.

A Treasury memorandum given out to the press on October 5, after commenting on this limitation, points out:

> Even without the legal obligation to the International Monetary Fund there are important considerations of policy which, in effect, circumscribe the discretion of the Secretary of the Treasury to change the price of gold. The gold policy of the United States has been directed primarily to maintaining a stable relation between gold and the dollar.
>
> Since 1934 the United States has firmly adhered to the requirements of an international gold bullion standard. We have done so by buying and selling gold freely at a fixed price, $35 an ounce, in transactions with foreign governments and central banks for all legitimate monetary purposes.
>
> The importance which the United States attributes to the maintenance of a stable dollar price for gold is demonstrated by other legislative provisions. The gold parity statutes contained in the Gold Standard Act of 1900 and the Act of May 12, 1933, provide that the gold dollar "shall be the standard unit of value and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity."

A Stronger Tie to Gold

Perhaps the most conclusive answer to unsettling rumors of dollar devaluation would be Congressional action to strengthen the present tie of the dollar to gold. Repeal of the ambiguous sections 8 and 9 of the Gold Reserve Act would go in that direction as would removal of superfluous, superseded, or misleading provisions in general. To go the whole way and resume free convertibility for the private citizen, as is being urged with increasing frequency, is something that we ought to be thinking about and preparing for. While premature in the present unsettled state of world monetary reconstruction, hardly anything would be so effective in confirming the sincerity of purpose of the American Government in keeping the dollar as a stable standard of value.

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